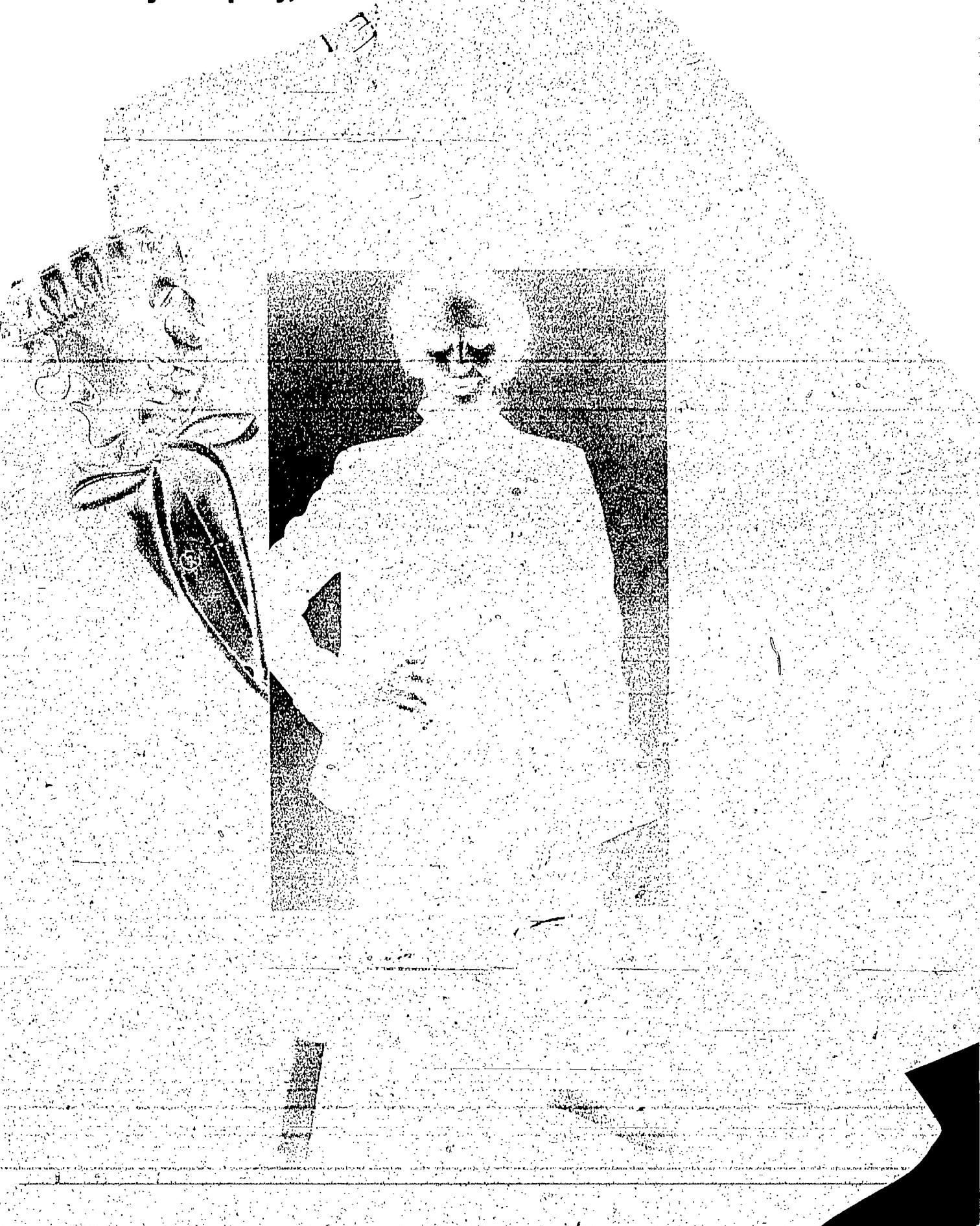


J.C. Penney Company, Inc.

1980 Annual Report



Financial Highlights

(In millions except per share data)

For the Year	1980	1979	1978
Sales	\$11,353	\$10,856	\$10,436
Per cent increase from prior year	4.6	4.0	15.4
Income from continuing operations	\$ 268	\$ 261	\$ 284
Per cent increase (decrease) from prior year	2.6	(8.0)	(4.0)
Per cent of sales	2.4	2.4	2.7
Per cent of stockholders' equity	10.6	11.1	13.4
Income from continuing operations per share	\$ 3.83	\$ 3.78	\$ 4.25
Dividends per share	\$ 1.84	\$ 1.76	\$ 1.76
Capital expenditures	\$ 295	\$ 355	\$ 331

This is JCPenney.

JCPenney is a major retailer, with stores in all 50 states, Puerto Rico, and Belgium. The dominant portion of the Company's business consists of providing merchandise and services to consumers through stores, including catalog operations. The Company markets apparel, home and automotive products, drug store merchandise, and insurance.

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Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A.M., Monday, May 18, 1981, at the Essex House, 160 Central Park South, in New York City. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 10, 1981.

To Our Stockholders:

For JCPenney, 1980 proved to be a year of challenge and accomplishment. A difficult economic climate, characterized by high inflation and high interest rates, contributed to another very competitive year for retailers.

While earnings were down sharply in the first half of the year, discipline in the management of both inventories and expenses helped narrow the decline in the third quarter. Continued tight controls over expenses and inventories coupled with improved sales produced the most profitable fourth quarter in the Company's history. For the 53 weeks ended January 31, 1981, income from continuing operations rose 2.6 per cent to \$268 million, or \$3.83 per share, from \$261 million, or \$3.78 per share, for the 52 weeks in 1979.

These results exclude The Treasury discount operation, which, as previously announced, is being discontinued. Treasury has not been profitable for a number of years, and we have determined that the resources which would be needed to make it a viable and profitable operation can be deployed more productively in other activities.

After Treasury's operating losses and a provision for costs expected to be incurred in closing these stores, net income for the 53 weeks declined 4.3 per cent to \$233 million, or \$3.33 per share, from \$244 million, or \$3.52 per share, in 1979.

Sales of continuing operations were \$11.4 billion, an increase of 4.6 per cent from last year's level of \$10.9 billion. On a comparable 52 week basis, sales increased 3.1 per cent.

Increased promotional activity during the first nine months of 1980 contributed to a decline in gross margin for the year. In the fourth quarter, markdowns declined as a per cent to sales, and gross margin improved significantly.

Higher LIFO provisions also affected gross margin for the year, as shown on page 14. The LIFO provision was \$111 million in 1980 compared with \$92 million in 1979. The LIFO method of inventory valuation, which matches current costs and revenues, reflects, in part, the effects of inflation on reported earnings. Inventories at year end were approximately 7 per cent below the level of a year earlier.

Selling, general, and administrative expenses, as a per cent to sales, increased for the year despite a decline in the fourth quarter. Expenses were reduced in the final quarter by a gain of \$10 million from the sale of securities of La Rinascente, an Italian retailer. These securities were obtained in 1977 as a result of the sale of the Company's retail operations in Italy.

Interest expense for 1980 declined 8.0 per cent, due principally to lower borrowing levels. During the year, \$750 million of long term debt was sold with maturities of five to 30 years and interest rates ranging from 10.75 to 13.50 per cent. These financings enabled us to decrease significantly our short term debt and our exposure to the fluctuations of short term interest rates.

JCPenney stores and catalog continued to be the chief contributors to sales and earnings in 1980. Operating profits for JCPenney stores and catalog increased substantially in the fourth quarter, as compared with the same period in 1979, resulting in a profit improvement for the year.

Sales of our Belgian operations rose to \$911 million in 1980 from \$861 million in 1979, but profits were lower for the year.

Drug stores' sales rose 16.0 per cent to \$474 million from \$409 million in 1979, and earnings continued to improve.

JCPenney Financial Services, our insurance operations, had net income of \$28 million in 1980, up from \$26 million in 1979. During the year, we opened insurance centers in 39 stores. In-store centers were operating in 69 JCPenney stores in 10 markets at year end.

The regular quarterly dividend was raised from 44 cents per share to 46 cents, effective in the first quarter of 1980. The increase brought the annual dividend rate to \$1.84 per share.

Capital expenditures, mainly for JCPenney stores and catalog facilities, amounted to \$295 million in 1980. During the year, we opened 40 full line and 32 soft line JCPenney stores and 17 drug stores, adding new store space, net of closings, of about 2.7 million square feet of net selling space.

In 1981, we plan to open 30 full line and 16 soft line JCPenney stores, 14 drug stores, and in Belgium one Sarma store and three Wendy restaurants. New store space added, net of closings, will be about 2 million square feet of net selling space. Capital expenditures are expected to approximate \$250 million.

We expect that a combination of rising consumer income and some improvement in the rate of inflation should strengthen consumer spending as the year progresses. We anticipate that sales for the general merchandise retail industry will grow about 8.5 per cent, as compared with a 5.5 per cent increase in 1980. Inflation in general merchandise is expected to be



Donald V. Seibert, Chairman of the Board



Walter J. Neppl, President

approximately 6 per cent. Other costs, including labor, construction, and energy, are rising at rates closer to the Consumer Price Index, which we estimate will increase 11 per cent in 1981.

Inflation continues to be a major concern for both the country as a whole and our own industry. Rapidly increasing costs for labor, energy, construction, and financing represent significant pressures on general merchandise retailers. We intend to continue intensive efforts to reduce costs and improve productivity.

We are encouraged by the commitment to deal with the fundamental causes of inflation that is reflected in the President's budget and tax reduction proposals. The depreciation provisions within the proposed economic program recognize the growth of the service sector of the economy and the importance of a healthy distribution system to the overall economic well being of the country. Retailers have substantial investments in buildings and equipment. Therefore, the accelerated cost recovery schedules provide attractive benefits, notably increased return on investment and cash flow, which, in turn, provide a stimulus for additional investment. Since there seems to be a strong general mandate in the country for taking the necessary steps to get the economy moving again, we are hopeful that there will be strong citizen support for the passage of the President's proposals as a total economic package.

While we recognize that there are no quick cures for the nation's economic problems and that the business climate for retailers will continue to be highly competitive, we believe that JCPenney is well positioned to serve profitably a growing base of customers in the years ahead. Our network of 552 full line JCPenney stores represents more than 47 million square feet of net selling space in prime regional shopping centers of major markets across the country.

Our investment in full line store locations has also entailed considerable effort in developing merchandising and marketing strategies geared to establishing a distinctive niche for JCPenney with shopping center customers. The soft goods orientation of our merchandise mix, with emphasis on apparel, home furnishings, and leisure lines, places the full line Penney store in direct competition with traditional department stores in the shopping center.

Women's apparel and accessories, the leading area in department stores, is the largest of our six merchandise divisions. Sales in the women's area grew at a faster pace than overall Company performance in 1980. Continuing to build sales in this important category is a critical part of our strategy for the 1980's. Immediately following this letter, we highlight for you some of our recent development efforts in women's apparel which will add fashion excitement in full line JCPenney stores across the country.

Other important aspects of our business, such as community involvement, contributions, minority economic development, and employment, are discussed on page 29.

William M. Batten, chairman of the board of the New York Stock Exchange and chairman of the board of our Company from 1964 until 1974, retired from our board of directors in 1980. We wish to express our special appreciation to Mil Batten for more than 50 years of outstanding service to the Penney Company.

Louis L. Avner retired last year as president of Thrift Drug Company and as a Penney director. His leadership was an important factor in establishing a strong and mutually beneficial association between Thrift Drug and JCPenney.

We would like to take this opportunity to thank JCPenney's employees, suppliers, and stockholders for their support in 1980. We are confident that the continuing hard work and enthusiasm of our people will make 1981 a rewarding and productive year for all of us.

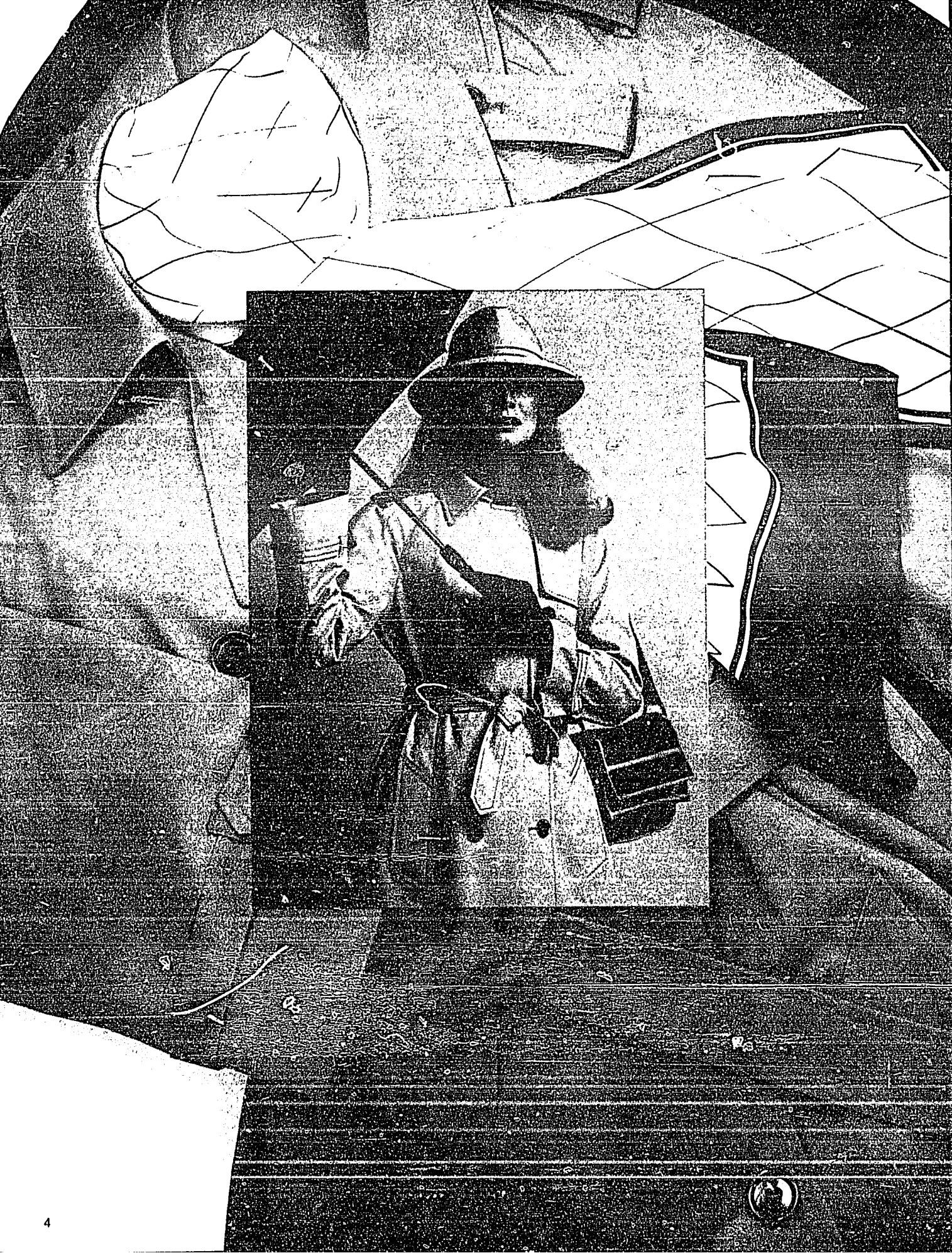
The signature of Donald V. Seibert, Chairman of the Board, written in cursive ink.

Donald V. Seibert, Chairman of the Board

The signature of Walter J. Neppl, President, written in cursive ink.

Walter J. Neppl, President

March 30, 1981





Classic Investments . . . We see a continuing strong market for quality apparel of timeless fashion at prices not readily found for comparable merchandise in department stores. Shown here and on the cover are two new private label lines, reflecting the clean, classic looks in which so many American women have invested for years.

The major differences between our *Windsor Bay* raincoat and *London Fog*'s number one trench style are a patented rubber button shank and the price. *Windsor Bay*, selling at \$85 (\$105 for the zip-in pile-lined version), retails for about \$20 less than the classic mainstay of *London Fog*'s all weather coat assortment, which is by far the most recognizable label line in the women's outerwear market today. Our new line provides a year-round lead fashion item for our rainwear department and helps position us in head-to-head competition with department stores for the contemporary woman customer. After a successful debut last Fall, *Windsor Bay* has been selected as the top-of-the-line all weather coat for JCPenney stores and catalog starting in the Spring of 1981.

Picket 'n' Post, featured on the cover, is a mix-and-match line of jackets, skirts, tailored pants, and blouses designed to coordinate with a wide array of JCPenney separates. Budget conscious customers can easily pull together an upscale fashion look at very reasonable prices. For example, *Picket 'n' Post*'s \$60 jacket and \$15 blouse readily combine with the leading JCPenney plaid skirt, priced at \$20. The new line will be introduced in three classic colors—taupe, burgundy, and navy—in most large JCPenney stores next Fall.

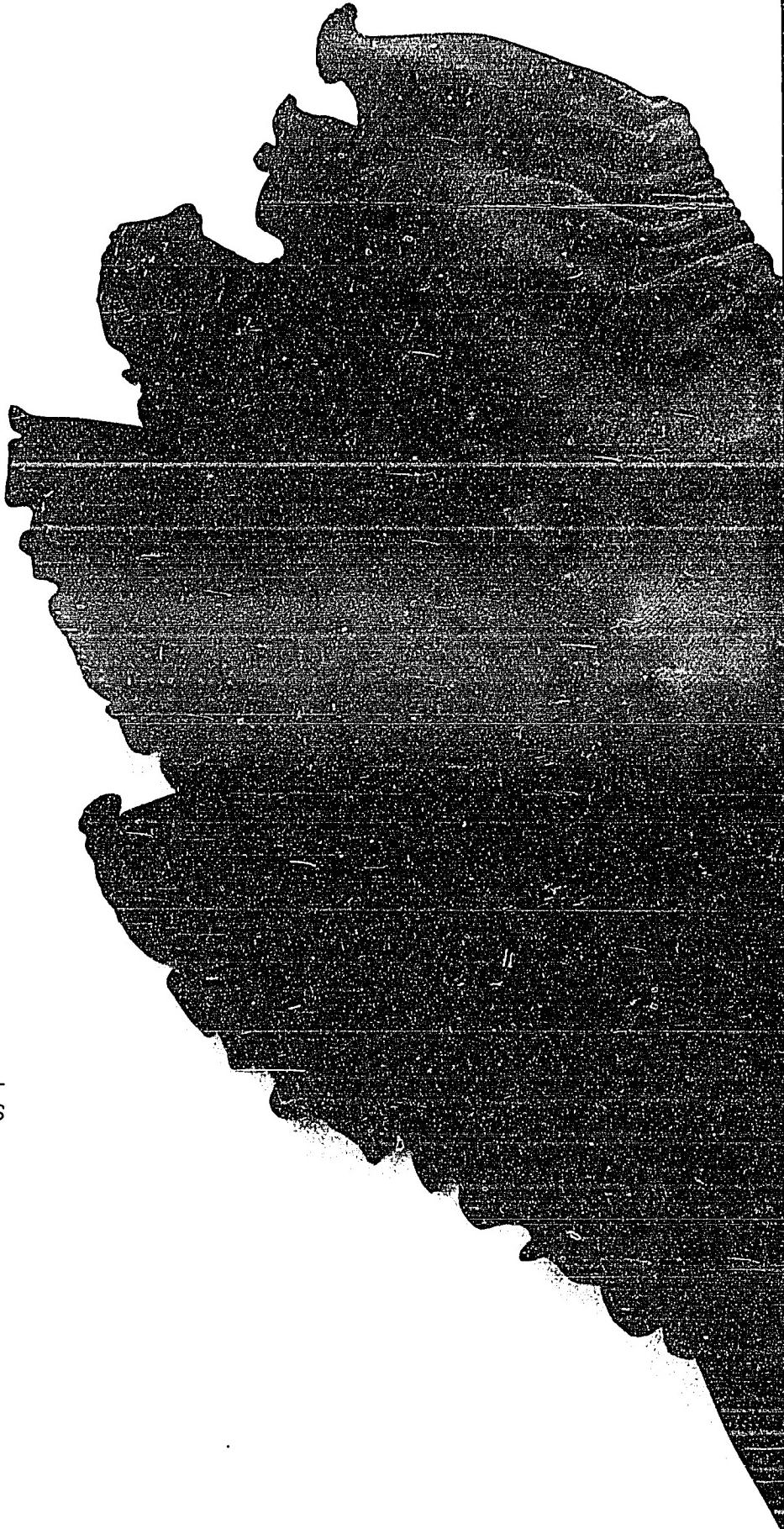
Women's sportswear generated excellent sales gains during the difficult months of 1980. Our new private label line is expected to add strength to a prime JCPenney merchandise category in the year ahead.

"Two new private label lines reflect the clean, classic looks in which so many American women have invested for years."

California Dreaming . . . The influence of California fashions on casual dressing for day and night is nowhere more evident than in the junior women's category. The separates shown here bear the Tomboy label, a popular California line which typifies JCPenney's forward fashion outlook and pricing strategy. As components of a line which will be found in many of our large stores in May, the red top will sell for \$14, the print skirt for \$27, the purple gauze top for \$19, and the matching skirt for \$23. Moderately priced manufacturer's label lines generally constitute about 15 per cent of the women's apparel mix of large JCPenney stores, enhancing our competitive stance versus other department and specialty stores in regional shopping centers.

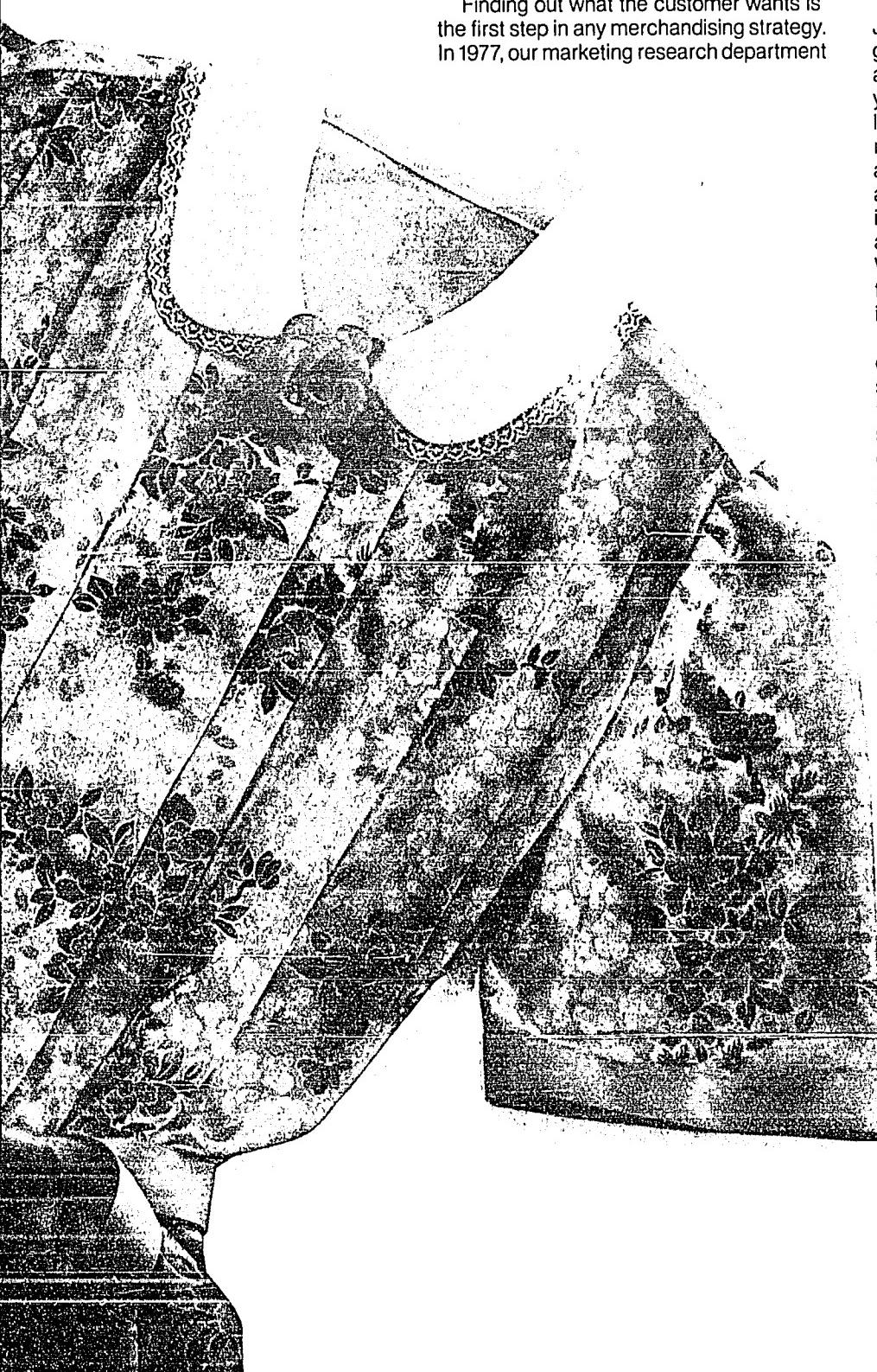
While certain label lines such as Tomboy are carried in many Penney markets from coast to coast, others have a more limited regional appeal. Consequently, the mix of labels found in our stores will vary from market to market. One important means of servicing differing market needs is through our merchandise specialist organization. We now have 60 merchandise specialists based in the 46 major JCPenney markets. They are responsible for ordering the more forward fashion merchandise in the women's area tailored to the specific needs of each large JCPenney store in its particular market. Our merchandise specialists handle label lines, new merchandise developing very close to the season, and dresses. They are now committing for new merchandise 11 times a year—on a schedule very similar to the department store buyer's calendar.

"The mix of labels found in our stores will vary from market to market."









Other Dimensions . . . The fashion industry has recently begun to focus on two generally ignored customer segments—American women under 5'3" and those from average height to tall weighing upward of 140 pounds. While both petite and large size merchandise has long been represented in our women's department, JCPenney has been placing increasing emphasis on the fashion component of this merchandise, making important sales gains in the process.

Finding out what the customer wants is the first step in any merchandising strategy. In 1977, our marketing research department

conducted studies geared to the approximately 20 million women who wore large (size 38 and up) clothing. Our most significant finding was that this shopper was very dissatisfied with what most retailers were offering her. Like her slimmer friends, she wanted to look stylish and feel good in current looks. Our research also revealed that many of these women believed that prices for better looking merchandise in department and specialty stores were too high.

With these research results in mind, JCPenney took a leadership position in guiding our suppliers toward the silhouettes and styling which would satisfy both the younger and older age segments of the large size range. We established a separate identity for large sizes at store level and in addition to offering some large size apparel in our two general catalogs, we introduced two specialty catalogs featuring all apparel lines targeted to this customer. With increasing frequency, we have been telling larger size women that JCPenney is the place to shop for their apparel needs.

We have taken a similar approach to our petite customers, offering an expanded selection of the leading fashion looks scaled to their proportions. Petite dresses, like those shown here, are one of the most exciting categories of the women's dress department. Like large size merchandise, our petites are located in one area of the selling floor, making a clear statement that JCPenney has what the petite customer wants and at prices she can afford. The long sleeved, lavender dress featured here will be available this Spring in most large JCPenney stores and will sell for \$54.

"Like large size merchandise, our petites are located in one area of the selling floor, making a clear statement that JCPenney has what the petite customer wants and at prices she can afford."

Summary of Accounting Policies

The dominant portion of JCPenney's business consists of selling merchandise and services to consumers through stores, including catalog operations.

Basis of Presentation. The accompanying financial statements, Financial Review, and Ten Year Financial Summary have been restated to exclude the assets, liabilities, income, and expenses of The Treasury discount operation, which is being discontinued

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1980 ended January 31, 1981; 1979 ended January 26, 1980; and 1978 ended January 27, 1979. They comprised 53 weeks, 52 weeks, and 52 weeks, respectively. The accounts of JCPenney Financial Services are on a calendar year basis.

Basis of Consolidation. The consolidated financial statements present the results of all merchandising operations and those real estate subsidiaries whose properties are presently being utilized in merchandising operations. Intercompany items and transactions have been eliminated in consolidation. Not consolidated are J.C. Penney Financial Corporation, JCPenney Financial Services, and JCP Realty, Inc., which are accounted for on the equity basis.

The income before income taxes of J.C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income.

Sales. Sales include merchandise and services, net of returns, and exclude sales and value added taxes.

Accounts Receivable. Finance charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method

Properties. Maintenance and repairs are charged to current operations as incurred, and improvements are capitalized.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 3 per cent for store buildings, 2-1/2 per cent to 4 per cent for warehouse and office buildings, and 10 per cent for fixtures and equipment. Property rights under capital leases and improvements to leased premises are amortized on a straight line basis over the term of the lease or their useful life, whichever is shorter.

Income Taxes. JCPenney uses the "flow through" method whereby income taxes are reduced currently for the amounts of investment tax credits.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

Pension Cost. The cost of pension benefits has been determined by the entry age normal actuarial method. Unfunded actuarial liabilities are amortized over a period not to exceed 30 years.

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and changes in financial position. Certain estimated amounts are included in the financial statements, and these amounts are based on currently available information and judgment of current conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company's system of internal accounting controls and procedures is supported by written policies and guidelines and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable cost, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established procedures, policies, and guidelines are disseminated and understood throughout the Company.

The financial statements have been audited by independent public accountants whose report appears on page 11.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent public accounting firm for the purpose of conducting the annual examination of the Company's accounts. Company personnel, including internal auditors, and the independent public accountants meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

Statement of Income

(In millions except per share data)

J C Penney Company, Inc. and Consolidated Subsidiaries

	53 weeks ended January 31, 1981	52 weeks ended January 26, 1980	52 weeks ended January 27, 1979
Sales	\$11,353	\$10,856	\$10,436
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	8,017	7,656	7,316
Selling, general, and administrative expenses	2,681	2,532	2,431
Interest, after deduction of income before income taxes of J.C. Penney Financial Corporation	233	254	208
Total costs and expenses	10,931	10,442	9,955
Income before income taxes and other unconsolidated subsidiaries	422	414	481
Income taxes	184	180	220
Income before other unconsolidated subsidiaries	238	234	261
Income of other unconsolidated subsidiaries	30	27	23
Income from continuing operations	268	261	284
Discontinued operations			
Operating losses, net of income taxes of \$16, \$13, and \$7	(21)	(17)	(8)
Provision for estimated costs of disposal, net of income taxes of \$14	(14)	—	—
Net income	\$ 233	\$ 244	\$ 276
Per share			
Income from continuing operations	\$ 3.83	\$ 3.78	\$ 4.25
Discontinued operations			
Operating losses, net of income taxes	(.30)	(26)	(13)
Provision for estimated costs of disposal, net of income taxes	(.20)	—	—
Net income	\$ 3.33	\$ 3.52	\$ 4.12

Statement of Reinvested Earnings

(In millions)

Reinvested earnings at beginning of year	\$1,737	\$1,613	\$1,456
Net income	233	244	276
Unrealized change in market value of equity securities	6	2	(1)
Dividends	(128)	(122)	(118)
Reinvested earnings at end of year	\$1,848	\$1,737	\$1,613

See Summary of Accounting Policies on page 10, Management's Discussion and Analysis of Financial Structure and Results of Operations on page 14, and 1980 Financial Review on pages 15 through 25

Accountants' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.

We have examined the balance sheet of J.C. Penney Company, Inc. and consolidated subsidiaries as of January 31, 1981, January 26, 1980, and January 27, 1979, and the related statements of income, reinvested earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J.C. Penney Company, Inc. and consolidated subsidiaries at January 31, 1981, January 26, 1980, and January 27, 1979, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

345 Park Avenue, New York, N.Y.
March 20, 1981

Peat, Marwick, Mitchell & Co.

Balance Sheet

J C Penney Company, Inc and Consolidated Subsidiaries

(In millions)

Assets	January 31, 1981	January 26, 1980	January 27, 1979
Current assets			
Cash and temporary investments of \$360 in 1980 .	\$ 462	\$ 99	\$ 78
Receivables, net	981	665	467
Merchandise inventories	1,571	1,687	1,970
Prepaid expenses	134	118	101
Total current assets	3,148	2,569	2,616
Assets of discontinued operations, net	102	105	123
Investment in and advances to unconsolidated subsidiaries	673	579	498
Properties and property rights, net of accumulated depreciation and amortization of \$686, \$590, and \$524	1,890	1,744	1,526
Other assets	50	44	34
	<u>\$5,863</u>	<u>\$5,041</u>	<u>\$4,797</u>
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued expenses	\$1,223	\$1,083	\$1,076
Dividend payable	32	31	30
Income taxes	94	41	45
Deferred credits, principally tax effects applicable to installment sales	412	466	404
Total current liabilities	1,761	1,621	1,555
Long term debt and commitments under capital leases	1,328	801	806
Deferred credits, principally tax effects applicable to depreciation and capital leases, net	135	99	79
Stockholders' equity			
Preferred stock, without par value: Authorized, 5 million shares— issued, none			
Common stock, par value 50¢: Authorized, 100 million shares— issued, 70 million shares	791	783	744
Reinvested earnings	1,848	1,737	1,613
Total stockholders' equity	2,639	2,520	2,357
	<u>\$5,863</u>	<u>\$5,041</u>	<u>\$4,797</u>

See Summary of Accounting Policies on page 10, Management's Discussion and Analysis of Financial Structure and Results of Operations on page 14, and 1980 Financial Review on pages 15 through 25

Statement of Changes in Financial Position

J C Penney Company, Inc and Consolidated Subsidiaries

(In millions)

	53 weeks ended January 31, 1981	52 weeks ended January 26, 1980	52 weeks ended January 27, 1979
Funds were generated from Operations			
Income from continuing operations before undistributed income of other unconsolidated subsidiaries	\$ 238	\$ 234	\$ 261
Depreciation and amortization	145	131	114
Deferred credits and stock issued for Company contributions to employee benefit plans	36	29	73
Total	419	394	448
Undistributed net income of J.C. Penney Financial Corporation	(55)	(60)	(43)
Discontinued operations, net	(32)	1	(27)
External sources			
Increase in long term debt	550	10	100
Other	3	34	43
Total funds generated	885	379	521
Funds were used for			
Dividends	128	122	118
Capital expenditures	295	355	331
Retirement of long term debt	23	15	5
Total funds used	446	492	454
Increase (decrease) in working capital			
Increase (decrease) in other deferred credits, principally tax effects applicable to installment sales	(54)	62	58
Increase (decrease) in working funds	\$ 385	\$ (51)	\$ 125

Analysis of Changes in Working Capital and Working Funds

(In millions)

Cash and temporary investments of \$360 in 1980	\$ 363	\$ 21	\$ 5
Receivables, net	316	198	(157)
Merchandise inventories	(116)	(283)	319
Accounts payable and accrued expenses	(140)	(7)	(119)
Other	16	(42)	19
Increase (decrease) in working capital	439	(113)	67
Deferred credits, principally tax effects applicable to installment sales	(54)	62	58
Increase (decrease) in working funds	\$ 385	\$ (51)	\$ 125

See Summary of Accounting Policies on page 10, Management's Discussion and Analysis of Financial Structure and Results of Operations on page 14, and 1980 Financial Review on pages 15 through 25

Management's Discussion and Analysis of Financial Structure and Results of Operations

Financial Structure. The Company's capital requirements are generated in various ways. The principal sources consist of funds from operations and borrowings in the form of fixed or floating rate obligations as appropriate. Funds generated from operations have ranged from \$400 million to \$450 million in each of the past three years.

Due to the impact of economic forces, primarily rising merchandising costs and dramatically fluctuating interest rates, the Company instituted two major programs. First, inventory levels have been reduced systematically for the past two years despite a 9 per cent increase in net selling space during that period. The result of this program was to position the Company to react to consumer demands for seasonal merchandise while minimizing working capital requirements. Second, short term borrowings were substantially decreased through the sale of \$750 million of long term debt. This reduces the impact of fluctuating short term interest rates on earnings.

As shown on page 19 in the discussion of the Company's corporate financial structure, these programs have been quite effective in the past two years. In 1978, funds generated from operations were not sufficient to fulfill requirements, and the Company obtained funds externally in the amount of \$636 million. That was reversed in 1979. In 1980, the funds generated exceeded funds used by \$198 million, which were used to retire external borrowings.

The Company anticipates that the future sources of funds required to finance receivables, inventories, and expansion and to repay amounts borrowed in previous years will continue to be from operations and external borrowings, as needed and depending on the condition of the financial markets. The Company will continue to review all uses of funds to enhance financial returns and maintain financial flexibility.

Results of Operations. Ratios useful in analyzing the results of continuing operations for each of the last three years were as follows:

	1980	1979	1978
Sales (In millions)	\$11,353	\$10,856	\$10,436
Per cent increase over prior year	4.6	4.0	15.4
Per cent increase in inflation in general merchandise	6.3	5.8	4.9
Real per cent increase (decrease)	(1.7)	(1.8)	10.5
Gross margin as a per cent to sales	29.4	29.5	29.9
Selling, general, and administrative expenses as a per cent to sales	23.6	23.3	23.3
Interest expense as a per cent to sales	2.1	2.3	2.0
Income from continuing operations (In millions)	\$ 268	\$ 261	\$ 284
Per cent increase (decrease) from prior year	2.6	(8.0)	(4.0)
Per cent to sales	2.4	2.4	2.7

The rates of sales increases in 1980 and 1979 reflect the adverse effects of various economic forces on consumers. During the past two years, consumers' spending for general merchandise has been impacted by a reduction in real purchasing power caused by high inflation, particularly in the costs of food, housing, and energy.

Due to the competitive nature of the industry, many retailers have not increased prices to their customers in amounts sufficient to recover higher costs incurred to acquire, display, and deliver merchandise. Accordingly, gross margins have decreased in 1980 and 1979 from the level recorded in 1978. In part, the effects of inflation on reported earnings are reflected in the LIFO provisions of \$111 million in 1980, \$92 million in 1979, and \$22 million in 1978, which were recorded to offset inflation in merchandise inventories. Also, increased promotional activities designed to stimulate sales were evident in the three year period.

Selling, general, and administrative expenses rose slightly as a per cent to sales in 1980. Salaries and administrative costs, which are greatly impacted by inflationary forces, were tightly controlled. The sales gain in 1980 did not provide sufficient leverage to offset moderate expense increases.

Interest expense in 1980 declined due to lower borrowing levels, as shown on page 19. Higher interest rates in 1979 and 1978 as well as higher borrowing levels in 1978 resulted in increased interest expense each year.

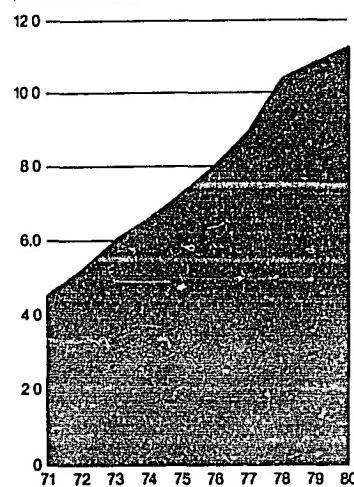
The Company is discontinuing its Treasury discount store operation. The accompanying Statement of Income presents as a separate item the operating losses of Treasury, net of income taxes, for each of the last three years. Also included in 1980 is a provision for costs expected to be incurred, net of income taxes, in discontinuing this operation. The assets to be disposed of, net of certain related liabilities, are presented separately in the accompanying Balance Sheet.

Additional Information. For additional discussion and analysis of 1980, see the 1980 Financial Review on pages 15 through 25. For required information as to the impact of inflation on financial data, see pages 30 and 31.

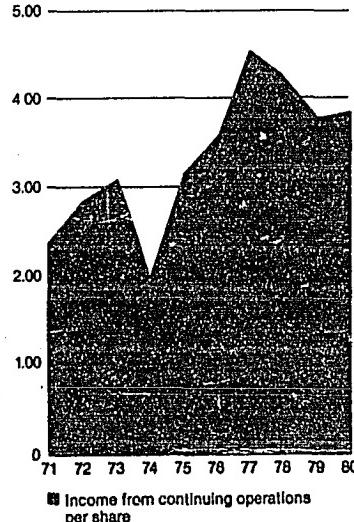
1980 Financial Review

Overview

Sales
(Dollars in billions)



Income and Dividends Per Share (Dollars)



Sales in 1980 were \$11.4 billion, an increase of 4.6 per cent over \$10.9 billion in 1979. Fiscal 1980 comprised 53 weeks compared with 52 weeks in 1979. On a comparable 52-week basis, sales in 1980 were 3.1 per cent higher than in 1979. A breakdown of the Company's sales is as follows:

(In millions)	Per cent increase 1980 vs 1979		Per cent increase 1979 vs 1978		
	All units	Com- parative units	1979	All units	
	1980			Comparative units	1978
JCPenney stores	\$ 9,675	3.8	.2	\$ 9,322	2.7
Catalog	1,537	5.7	n/a	1,455	20.3
Other retail operations	1,385	9.1	8.7	1,270	13.8
Intercompany elimination	(1,244)	n/a	n/a	(1,191)	n/a
Total	\$11,353	4.6	1.1	\$10,856	4.0
					1.1
					\$10,436

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores. Total catalog sales shown above include sales by catalog sales centers, outlet stores, and mail. The duplication with respect to sales by catalog sales centers is eliminated. Comparative units are those in operation throughout both the current and prior year. For further analyses of sales, see the discussion below and the Ten Year Operations Summary on page 26.

In the 10 years ended January 31, 1981, sales have grown at the compound annual rate of 10.3 per cent.

Income from continuing operations was \$268 million in 1980 versus \$261 million in 1979 and \$284 million in 1978. Income from continuing operations per share, based on the weighted average number of shares outstanding, was \$3.83 in 1980, \$3.78 in 1979, and \$4.25 in 1978.

After the operating losses of the discontinued Treasury discount operation and a provision for costs expected to be incurred in closing these stores, net income was \$233 million in 1980, \$244 million in 1979, and \$276 million in 1978. Net income per share amounted to \$3.33 in 1980, \$3.52 in 1979, and \$4.12 in 1978.

In the 10 years ended January 31, 1981, income from continuing operations has increased at the compound annual rate of 9.0 per cent.

The quarterly dividend was increased 2 cents per share in 1980 to 46 cents per share, or an annual rate of \$1.84 per share. Dividends declared totaled \$128 million in 1980 compared with \$122 million in 1979 and \$118 million in 1978.

Retail units and net selling space increased as follows:

	1980		1979		1978	
	Number of units	Net selling space (000 sq ft)	Number of units	Net selling space (000 sq ft.)	Number of units	Net selling space (000 sq ft.)
JCPenney stores						
Additions						
Full line	40	3,034	37	2,821	28	2,127
Soft line	32	823	29	714	33	727
Total	72	3,857	66	3,535	61	2,854
Closings						
Full line	5	369	2	77	2	139
Soft line						
Relocations	55	826	49	667	47	471
Other	13	170	15	203	15	143
Total	73	1,365	66	947	64	753
Increase (decrease), net	(1)	2,492	—	2,588	(3)	2,101
Other retail operations, net	9	104	15	379	36	396
Modifications and expansions, net	—	73	—	(181)	—	89
Net increase in store space	8	2,669	15	2,786	33	2,586
Total in operation at year end	2,119	67,754	2,111	65,085	2,096	62,299

A schedule of store space opened in 1980 appears on page 28. A history of retail units and net selling space is included in the Ten Year Operations Summary on page 26.

JCPenney Stores

(In millions)	JCPenney stores' sales were as follows:		Per cent increase (decrease) 1980 vs. 1979	Per cent increase (decrease) 1979 vs. 1978			
	1980	All units		1979	All units	Comparative units	
						1978	
Full line	\$7,224	6.5	.3	\$6,785	3.4	(.4)	\$6,562
Soft line	2,451	(3.4)	(.1)	2,537	.8	1.3	2,516
Total	\$9,675	3.8	.2	\$9,322	2.7	.1	\$9,078

JCPenney full line stores, located throughout the United States, are generally major tenants in large shopping centers. These department stores offer a wide selection of family apparel, home furnishings and household textiles, leisure time goods, automotive equipment, and household durables. In most stores, about two-thirds of net selling space is devoted to apparel and other soft line merchandise. Virtually all full line stores have a catalog sales center.

The Company had 552 full line stores in operation at year end. These stores vary widely in size and average 87,000 square feet of net selling space. Sales per square foot of net selling space were approximately \$156 for full line stores in operation throughout 1980. The Company's store expansion program continued to be based primarily upon the opening of full line stores in shopping centers of major metropolitan markets.

Full line stores' profit in 1980 was higher than in 1979 principally due to increased sales. Profits in 1979 were in excess of the prior year's primarily due to improved gross margin.

JCPenney soft line stores sell principally apparel and household textile merchandise. Soft line stores vary widely in size and average 13,000 square feet of net selling space. Virtually all have a catalog sales center which contributes importantly to sales and profits. Most are located in communities where the Company has operated stores for many years.

At year end, the Company had 1,130 soft line stores in operation. Sales per square foot of net selling space were approximately \$164 for soft line stores in operation throughout 1980. The Company's plans for its soft line stores' operation call for improving productivity in existing markets and expanding into new markets. These plans include modernization and relocation, as well as the leasing of existing retail space when suitable opportunities become available.

Soft line stores' profit declined in both 1980 and 1979 from the 1978 level due to lower sales in 1980 than in 1979 and slightly increased operating expenses in 1979 compared with 1978.

Catalog

Catalog operations serve customers who order merchandise through catalog sales centers or by mail or who purchase merchandise in catalog outlet stores. Catalog operations expand the Company's retailing capabilities by offering a wide range of apparel, home furnishings, and leisure time goods.

The Company publishes two general catalogs: Fall and Winter and Spring and Summer. These are supplemented by Christmas and other seasonal and promotional catalogs.

The following table shows the components of catalog sales:

(In millions)	Per cent increase (decrease) 1980 vs. 1979		Per cent increase 1979 vs. 1978				
	1980	All units	Comparative units	1979	All units		
					1978		
Sales centers							
JCPenney stores							
Full line	\$ 616	8.6	.2	\$ 567	28.9	10.5	\$ 441
Soft line and other	583	(.7)	4.8	587	16.9	9.4	502
Other retail operations	45	23.8	9.3	37	46.7	17.9	25
	1,244	4.5	2.6	1,191	23.1	10.1	968
Mail order	161	3.4	n/a	156	7.1	n/a	145
Outlet stores	132	21.5	10.8	108	11.6	13.1	97
Total	\$1,537	5.7	n/a	\$1,455	20.3	n/a	\$1,210

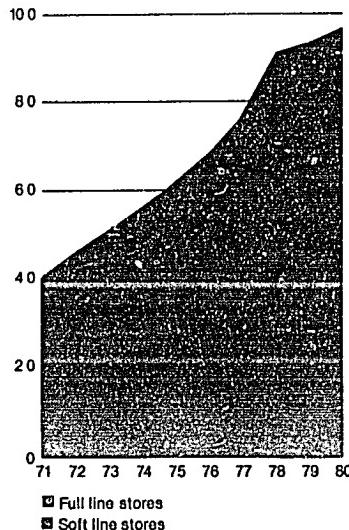
The number of catalog sales centers at each year end is shown below:

	1980	1979	1978
JCPenney stores			
Full line	550	515	432
Soft line and other	1,180	1,208	1,110
Other retail operations	110	97	75
Total	1,840	1,820	1,617

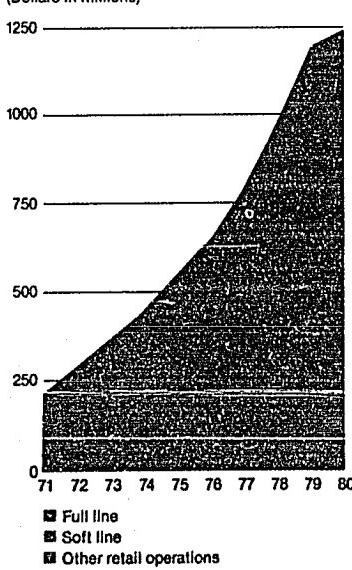
In 1979, catalog sales centers were opened in most stores on the west coast, following the start-up of a fifth distribution center in Reno, Nevada, early in the year.

Catalog's profit improved in 1980 compared with the 1979 level due to improved gross margin and lower operating expense ratios. The profit in 1979 declined from that of 1978 due principally to higher operating expense ratios.

JCPenney Stores' Sales (Dollars in billions)



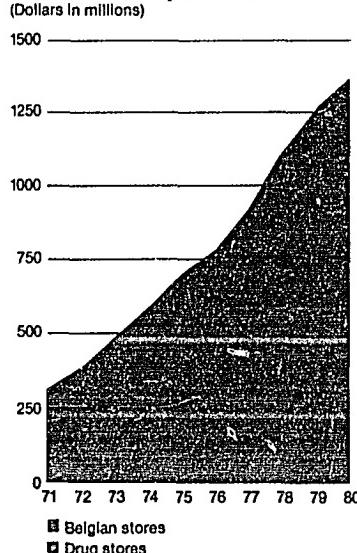
Catalog Sales Centers' Sales (Dollars in millions)



- Full line
- Soft line
- Other retail operations

Other Retail Operations

Other Retail Operations' Sales



Sales of other retail operations were as follows.

(In millions)	1980	Per cent increase 1980 vs 1979		1979	Per cent increase 1979 vs 1978	
		All units	Comparative units		All units	Comparative units
Belgian operations	\$ 911	5.8	6.4	\$ 861	12.1	10.1
Drug stores	474	16.0	12.6	409	17.5	11.5
Total	\$1,385	9.1	8.7	\$1,270	13.8	10.6
						\$1,116

Belgian stores, operating under the name Sarma, sell general merchandise, food, and apparel. At year end, there were 76 Sarma stores with an average of 24,000 square feet of net selling space; one store closed during 1980. Belgian operations include sales to franchised stores of \$410 million in 1980, \$375 million in 1979, and \$328 million in 1978. At year end, 186 franchised stores were in operation. Food sales accounted for about 60 per cent of Belgian sales in each of the three years.

In 1979, the Company acquired exclusive rights to develop and operate restaurants under the Wendy system and trademarks in Belgium, Luxembourg, France, and the Netherlands. The first of these restaurants in Belgium opened in 1980.

In local currency, sales in 1980 of all units and comparative units increased 71 per cent and 7.8 per cent, respectively.

Net assets were \$95 million at year end 1980, compared with \$93 million at year end 1979 and \$80 million at year end 1978.

Belgian profits declined in 1980 after two consecutive years of improvement due to a decline in gross margin, increased operating expenses, and the effects of currency translation.

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, average 8,600 square feet of net selling space and offer typical drug store merchandise, including prescription drugs and health and beauty aid products. During 1980, 17 stores opened and seven stores closed. At year end, the Company operated 361 drug stores, of which 110 had catalog sales centers.

Drug stores' profits increased in 1980 over the 1979 level as a result of increased sales. Tight controls over operating expenses established two years ago also contributed to the 1980 profit improvement as well as that for 1979 over 1978.

Unconsolidated Subsidiaries

Investment in and advances to unconsolidated subsidiaries stated at equity were as follows.

(In millions)	1980	1979	1978
J.C. Penney Financial Corporation	\$481	\$434	\$374
JCPenney Financial Services	215	166	138
JCP Realty, Inc.	(23)	(21)	(14)
Total	\$673	\$579	\$498

J.C. Penney Financial Corporation (Financial) finances a major portion of JCPenney's customer receivables. Financial charges JCPenney a discount on the receivables purchased which is calculated to produce earnings sufficient to cover Financial's fixed charges, chiefly interest on borrowings, at least one and one-half times.

The condensed balance sheets of Financial were as follows:

(In millions)	1980	1979	1978
Assets			
Customer receivables	\$1,882	\$2,465	\$2,420
Other, including temporary investments of \$105 in 1980	124	7	7
	<u>\$2,006</u>	<u>\$2,472</u>	<u>\$2,427</u>
Liabilities and equity			
Notes payable	\$ 532	\$1,018	\$1,088
Accrued expenses	34	26	23
Due to JCPenney	94	123	121
Long term debt	857	871	821
Equity of JCPenney	489	434	374
	<u>\$2,006</u>	<u>\$2,472</u>	<u>\$2,427</u>

The complete financial statements of Financial are contained in its 1980 annual report, which is available upon request.

JCP Realty, Inc. is engaged in the development and operation of shopping centers through participation in joint ventures.

At year end, Realty had interests in 44 shopping centers: 29 in operation, three under construction, and 12 in the planning stage.

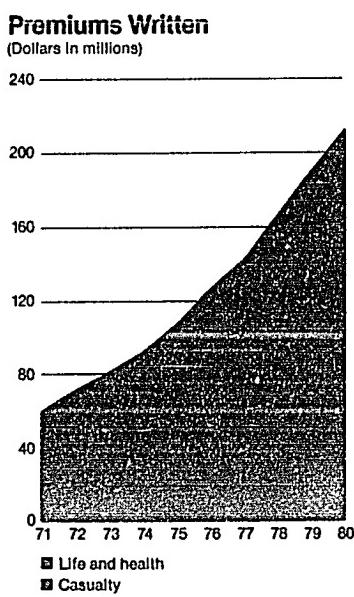
Realty recorded a small profit in each of the last three years and at year end had advanced \$42 million to JCPenney.

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries. These subsidiaries market life and health insurance and automobile and homeowners casualty insurance.

The insurance subsidiaries' combined profit improvement in 1980 over 1979 and 1979 over 1978 was due primarily to increased investment income.

Equity of JCPenney increased \$49 million during 1980 to \$210 million. Of that increase, \$28 million resulted from net income and \$15 million from a contribution of capital from the Company.

Combined financial information on the insurance operations follows:



Summary of operations

(In millions)	Year ended December 31	1980	1979	1978
Life and health				
Premiums written	\$ 116	\$ 104	\$ 93	
Premiums earned	<u>111</u>	<u>100</u>	<u>88</u>	
Investment income	23	19	14	
Total	134	119	102	
Benefits, claims, and expenses	106	88	78	
Income before income taxes	28	31	24	
Casualty				
Premiums written	\$ 96	\$ 88	\$ 74	
Premiums earned	<u>93</u>	<u>82</u>	<u>69</u>	
Investment income	15	9	6	
Total	108	91	75	
Claims and expenses	94	85	68	
Income before income taxes	14	6	7	
Combined				
Income before income taxes	42	37	31	
Income taxes	14	11	9	
Net income	\$ 28	\$ 26	\$ 22	

Balance sheet

(In millions)	December 31	1980	* 1979	1978
Assets				
Bonds, at amortized cost (market: \$277 in 1980, \$268 in 1979, and \$234 in 1978)	\$318	\$296	\$247	
Equity securities, at market (cost: \$54 in 1980, \$25 in 1979, and \$23 in 1978)	62	24	18	
Loans	35	34	33	
Real estate, net	18	18	19	
Deferred policy acquisition costs	99	76	60	
Other	35	31	23	
	<u>567</u>	<u>479</u>	<u>400</u>	
Liabilities and equity				
Policy and claims reserves	\$280	\$250	\$218	
Mortgage	9	10	10	
Income taxes and other liabilities	63	53	34	
Due to JCPenney	5	5	5	
Equity of JCPenney	210	161	133	
	<u>567</u>	<u>479</u>	<u>400</u>	

Corporate Financial Structure

The corporate financial structure, combining the assets and liabilities of J.C. Penney Company, Inc. and its consolidated subsidiaries with J.C. Penney Financial Corporation, was as follows:

(In millions)	1980	1979	1978
Assets			
Receivables, net	\$2,769	\$3,007	\$2,766
Merchandise inventories	1,571	1,687	1,970
Properties, net	1,890	1,744	1,526
Other	591	518	467
	<u>\$6,821</u>	<u>\$6,956</u>	<u>\$6,729</u>
Liabilities and equity			
Accounts payable and accrued expenses	\$1,268	\$1,120	\$1,114
Short term debt, net of temporary investments of \$465 in 1980	88	1,038	1,103
Long term debt	2,185	1,672	1,627
Income taxes, primarily deferred	641	606	528
Stockholders' equity	2,639	2,520	2,357
	<u>\$6,821</u>	<u>\$6,956</u>	<u>\$6,729</u>

The changes in the financial structure during each of the last three years were as follows.

(In millions)	1980	1979	1978
Funds generated from operations	\$ 419	\$ 394	\$ 448
Less funds used			
Increase (decrease) in customer receivables	(9)	241	394
Increase (decrease) in inventories, net of trade accounts payable	(221)	(213)	291
Capital expenditures	295	355	331
Dividends	128	122	118
Income taxes and other	28	(116)	(50)
Total	221	389	1,084
External funds required (retired)	<u>\$198</u>	<u>\$ (5)</u>	<u>\$ 636</u>
Sources of funds			
Increase (decrease) in short term debt	\$ (952)	\$ (86)	\$ 250
Increase in long term debt	513	45	346
Common stock issued	8	30	31
Sales of customer receivables, net of income taxes of \$44	229	—	—
Sales of properties	4	6	9
	<u>\$198</u>	<u>\$ (5)</u>	<u>\$ 636</u>

Assets

Receivables were as follows:

(In millions)	1980	1979	1978
Customer receivables			
Regular charge	\$1,912	\$2,118	\$1,985
Time payment	706	756	644
	<u>2,618</u>	<u>2,874</u>	<u>2,629</u>
Less allowance for doubtful accounts (2% of customer receivables)	52	58	53
	<u>2,566</u>	<u>2,816</u>	<u>2,576</u>
Other receivables, net	203	191	190
Receivables, net	<u>\$2,769</u>	<u>\$3,007</u>	<u>\$2,766</u>
Company Financial	<u>\$ 981</u>	<u>\$ 665</u>	<u>\$ 467</u>
	<u>\$1,788</u>	<u>\$2,342</u>	<u>\$2,299</u>

Customer receivables due after one year were approximately \$536 million at year end 1980, \$552 million at year end 1979, and \$447 million at year end 1978.

In February 1980, the Company entered into a 12-year agreement with a subsidiary of Citicorp (CIC), whereby CIC purchases on an ongoing, monthly basis approximately 10 per cent of the Company's customer receivables. Pursuant to the agreement, the Company is continuing to service these receivables.

Merchandise Inventories at year end 1980 were \$1,571 million, a decrease of approximately 7 per cent from \$1,687 million at year end 1979.

Substantially all inventories are valued at the lower of cost, last-in, first-out (LIFO), or market, determined by the retail method. If the first-in, first-out (FIFO) method of inventory valuation had been used by the Company, inventories at year end would have been \$344 million higher for 1980, \$233 million higher for 1979, and \$141 million higher for 1978.

The LIFO method of inventory valuation offsets the effect of inflation on merchandise inventories and more appropriately matches current costs with current sales. Increases in general merchandise prices charged to customers of retailers are typically less than increases in costs incurred by retailers to acquire, display, and deliver merchandise. This results in continued pressure on gross margins and requires the retail industry to emphasize resource conservation and increased productivity.

Some companies in the retail industry use the FIFO method in valuing part or all of their inventories. Had JCPenney used the FIFO method and made no other assumptions with respect to changes in income resulting therefrom, income and income per share from continuing operations would have been:

	1980	1979	1978
Income from continuing operations (In millions)	\$325	\$308	\$295
Income from continuing operations per share	\$4.63	\$4.45	\$4.40

Properties and property rights at year end were as follows:

(In millions)	1980	1979	1978
Land	\$ 99	\$ 92	\$ 90
Buildings			
Owned	729	607	504
Capital lease property rights	278	278	278
Fixtures and equipment	1,097	1,007	913
Leasehold improvements	194	180	160
Construction in progress and related land	179	170	105
	2,576	2,334	2,050
Less accumulated depreciation and amortization	686	590	524
Properties, net	\$1,890	\$1,744	\$1,526

Capital expenditures for the past three years are shown in the following tabulation:

(In millions)	1980	1979	1978
Land	\$ 8	\$ 4	\$ 9
Buildings	123	105	99
Fixtures and equipment	136	156	191
Leasehold improvements	17	24	20
Construction in progress and related land	11	66	12
Total capital expenditures	\$295	\$355	\$331

Expenditures to remodel stores were \$57 million in 1980, \$83 million in 1979, and \$104 million in 1978. There were no additional capital lease property rights in any of the last three years.

Capital expenditures are shown below:

(In millions)	1980	1979	1978
JCPenney stores	\$231	\$274	\$203
Catalog	26	34	64
Other	38	47	64
Total	\$295	\$355	\$331

JCPenney stores include expenditures for support facilities directly related to store operations.

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses were as follows:

(In millions)	1980	1979	1978
Accounts payable—trade	\$ 494	\$ 389	\$ 459
Dividend payable	32	31	30
Taxes, other than income taxes	78	64	61
Accrued salaries and vacations, profit sharing, and bonuses	157	158	153
Other	473	452	388
Company	1,234	1,094	1,091
Financial	34	26	23
	\$1,268	\$1,120	\$1,114

Short term debt consists of the following.

(In millions)	1980	1979	1978
Commercial paper	\$ 340	\$ 880	\$ 935
Master notes	86	138	153
Current maturities of long term debt—Financial Company	106 21	— 20	— 15
Total short term debt	553	1,038	1,103
Temporary investments	465	—	—
	\$ 88	\$1,038	\$1,103

The following table provides information regarding borrowings, investments, and interest rates.

	1980	1979	1978
Average short term debt (In millions)	\$811	\$1,257	\$1,210
Average short term borrowing rate	12.5%	11.0%	8.1%
Average temporary investments (In millions)	\$323	\$130	\$67
Average return on temporary investments	13.7%	11.5%	8.3%
Average total borrowing rate	9.9%	9.7%	8.2%

The long term debt position changed significantly in 1980. Long term debt of \$750 million was sold at an average interest rate of 11.88 per cent. These financings made it possible to reduce short term debt subject to fluctuating interest rates

	Maturities (In millions)		
	1985/86	1990	2010
Interest rates			
12.375%*	\$100	\$ —	\$ —
13.50%	100	—	—
10.75%	—	150	—
11.50–12%	—	—	400
	\$200	\$150	\$400

*Deferred Purchase Notes, \$25 million received on issuance, \$75 million due in May 1981. If any noteholder elects not to pay the balance, there will be no obligation to repay the amount received.

Long term debt and commitments under capital leases are shown below:

(In millions)	1980	1979	1978
Company			
Sinking fund debentures			
11.50% (fund commences 1991) due 2010	\$ 200	\$ —	\$ —
12% (fund commences 1991) due 2010	200	—	—
9% (fund commences 1984) due 1999	150	150	150
8.875% (fund commenced 1980) due 1995	125	141	150
	675	291	300
Notes 10.75% due 1990	150	—	—
Eurodollar notes 8.50% due 1983	100	100	100
Other notes and mortgages	118	120	112
	1,043	511	512
Present value of commitments under capital leases	285	290	294
	1,328	801	806
Financial			
Eurodollar notes 13.50% and 12.375% due 1985 and 1986	125	—	—
Debentures 4.50% to 7.875% due 1984-1991	175	175	175
Debentures 9.45% due 1981	—	100	100
Debentures 10.20% (sinking fund commences 1985) due 1994	75	75	75
Notes:			
Payable 13 months after demand	88	121	121
Senior 10.25% due 1984	50	50	—
Senior 8.625% to 9% (sinking fund commences 1981-1984) due 1996-1998	321	325	325
Other	23	25	25
	857	871	821
Long term debt and commitments under capital leases	\$2,185	\$1,672	\$1,627

To provide for conversion of certain debentures, 615 thousand shares of common stock were reserved at January 31, 1981.

Maturities of long term debt and rental payments under capital leases in future periods are as follows:

(In millions)	Long term debt			Capital leases
	JCPenney	Financial	Combined	
1981	\$ 11	\$106	\$ 117	\$ 26
1982	11	6	17	26
1983	111	6	117	26
1984	31	119	150	26
1985	46	127	173	27
Thereafter	844	599	1,443	416
Total	1,054	963	2,017	547
Less future interest and executory expenses	—	—	—	252
	1,054	963	2,017	295
Less amount included in short term debt	11	106	117	10
	\$1,043	\$857	\$1,900	\$285

Confirmed lines of credit available to JCPenney totaled \$1,156 million, including \$1,126 million available to JCPenney or Financial. None was in use at January 31, 1981. Lines of credit are supported by compensating balances, which are also used to compensate the banks for banking services associated with activity.

Stockholders' equity increased to \$2,639 million at year end 1980. Of that increase, \$111 million resulted from an increase in reinvested earnings. The return from continuing operations on stockholders' equity was 10.6 per cent in 1980, as compared with 11.1 per cent in 1979 and 13.4 per cent in 1978.

The following table shows the changes in outstanding common stock:

	Shares (In thousands)			Amounts (In millions)		
	1980	1979	1978	1980	1979	1978
Balance at beginning of year	69,703	68,318	65,940	\$783	\$744	\$662
Issued to savings and profit-sharing plan	344	1,290	2,023	8	37	71
Other	13	95	355	—	2	11
	70,060	69,703	68,318	\$791	\$783	\$744

The number of stockholders was approximately 89,000 at 1980 year end and 86,000 at year end 1979 and 1978. Approximately 83,000 employees were the beneficial owners, through the savings and profit-sharing plan, of 10.4 million shares of common stock at 1980 year end, representing 14.9 per cent of the shares outstanding.

JCPenney common stock is traded principally on the New York Stock Exchange. It is also traded on other exchanges in the United States and is listed and traded on the Brussels and Antwerp Stock Exchanges.

Stock Option and Performance Unit Plan. In 1980, a new stock option and performance unit plan was approved by stockholders. In accordance with the 1980 plan, 2.5 million shares of common stock, as well as shares available under the previous stock option plan, are reserved for issuance under the performance unit plan and upon the exercise of options granted.

Performance units are earned based on the degree to which Company performance meets or exceeds established targets. For 1980, approximately \$2 million was distributed, in cash, to plan participants.

Under the stock option portion of the plan, only ten-year non-qualified options may be granted. Options generally become exercisable one year from the date of grant.

Transactions in stock options were as follows:

	1980		1979		1978	
	Shares (In thousands)	Option price	Shares (In thousands)	Option price	Shares (In thousands)	Option price
Balance at beginning of year	2,017	\$29.38-70.44	1,761	\$35.32-70.44	1,078	\$40.69-70.44
Granted	348	24.44	333	29.38	752	35.32
Exercised	—	—	(1)	29.38	(4)	35.32
Expired	(122)	24.44-70.44	(76)	29.38-70.44	(65)	35.32-70.44
Balance at end of year	2,243	\$24.44-70.44	2,017	\$29.38-70.44	1,761	\$35.32-70.44

At January 31, 1981, options for 2.4 million shares were available for grant.

Supplementary Financial Data

Consumer purchases through JCPenney and bank credit cards were as follows:

	1980		1979		1978	
	Amounts (in billions)	Per cent of eligible sales	Amounts (in billions)	Per cent of eligible sales	Amounts (in billions)	Per cent of eligible sales
JCPenney credit card	\$4.1	39.1	\$4.2	41.8	\$4.0	40.9
Bank cards	.4	3.4	.1	1.2	—	—
Total	\$4.5	42.5	\$4.3	43.0	\$4.0	40.9

Eligible sales exclude sales in Belgium

Consumer purchases through credit cards were reduced during most of 1980 because of consumer confusion and apprehension following the announcement in March 1980 of the Federal Reserve Board's program of credit controls.

Approximately 83.1 per cent of sales on JCPenney credit cards were made in accordance with the regular charge schedule, and the balance in accordance with the time payment schedule.

At year end, the number of JCPenney credit accounts with outstanding balances was 11.1 million regular charge and 1.9 million time payment. Average account balances and average maturities were as follows:

	Average account balances			Average maturities (In months)		
	1980	1979	1978	1980	1979	1978
Regular	\$172	\$172	\$167	5.3	5.3	5.2
Time	380	371	356	10.3	9.7	9.8
All	202	201	192	6.1	6.1	5.9

Account balances with any portion three months or more past due represented 2.3 per cent of the amount of customer receivables at year end 1980 and 1979 and 2.4 per cent at year end 1978.

The Company's policy is to write off accounts when a dollar amount equal to a scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Net bad debt losses increased in 1980 to \$77 million, or 1.9 per cent of credit sales, from \$63 million, or 1.5 per cent of credit sales, in 1979 and \$54 million, or 1.4 per cent of credit sales, in 1978.

The net cost of the retail credit operation increased in 1980 as follows.

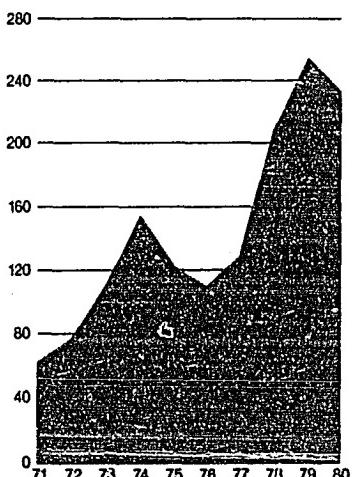
(In millions)	1980	1979	1978
Finance charge income	\$360	\$370	\$326
Costs			
Administration and applicable store expenses	192	181	166
Interest on average receivables less applicable deferred taxes	211	217	161
Provision for doubtful accounts	77	68	62
Income taxes	(50)	(39)	(29)
	430	427	360
Net cost of credit	\$ 70	\$ 57	\$ 34
Net cost as per cent of credit sales	1.7%	1.4%	.9%

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was \$270 million in 1980, compared with \$261 million in 1979 and \$268 million in 1978.

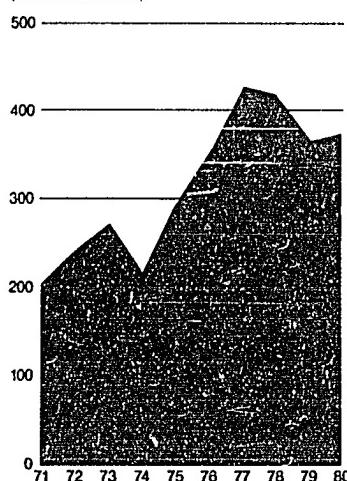
Interest expense was as follows

(In millions)	1980	1979	1978
Interest on long term debt	\$165	\$119	\$ 97
Interest on short term debt, net	58	122	93
Interest imputed on capital leases	22	23	23
Other interest, net	1	1	1
	246	265	214
Less capitalized interest	13	11	6
Interest expense	\$233	\$254	\$208

Interest Expense (Dollars in millions)



Total Taxes
(Dollars in millions)



Income tax expense was as follows:

(In millions)	1980	1979	1978
Current			
Federal	\$189	\$ 90	\$125
State and local	13	8	15
	<u>202</u>	<u>98</u>	<u>140</u>
Deferred			
Federal	(19)	74	72
State and local	1	8	8
	<u>(18)</u>	<u>82</u>	<u>80</u>
Total income tax expense	\$184	\$180	\$220
Effective tax rate on income from continuing operations before income taxes and other unconsolidated subsidiaries	43.6%	43.5%	45.7%

Deferred taxes arise principally from deferred gross profit on the balances due on installment sales, accelerated depreciation, and the accounting for capital leases.

The effective tax rate differed from the Federal income tax statutory rates as detailed below.

	Amounts (In millions)			Per cent of pre-tax income		
	1980	1979	1978	1980	1979	1978
Federal income tax statutory rate	\$195	\$190	\$230	46.0	46.0	47.9
Investment credits	(14)	(17)	(20)	(3.3)	(4.1)	(4.2)
State and local income taxes, less Federal income tax benefit	8	9	12	1.9	2.1	2.5
Other	(5)	(2)	(2)	(1.0)	(.5)	(.5)
Total income tax expense	\$184	\$180	\$220	43.6	43.5	45.7

Taxes other than income taxes, over half of which were payroll taxes, totaled \$226 million in 1980, up from \$216 million in 1979 and \$217 million in 1978.

Rent expense for real and personal property amounted to \$340 million in 1980, as compared with \$313 million in 1979 and \$302 million in 1978.

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 30 years; however, most leases will be renewed or replaced by leases on other premises.

The components of rent expense were as follows:

(In millions)	1980	1979	1978
Minimum rent on operating leases	\$189	\$177	\$163
Other occupancy costs including rent based on sales	151	136	139
Total	\$340	\$313	\$302

Minimum annual rents under noncancelable operating leases and the present value of the total commitment are as follows:

(In millions)	Operating leases
1981	\$ 182
1982	172
1983	165
1984	160
1985	153
Thereafter	1,973
Total	\$2,805
Present value	\$ 900

Savings and retirement plans' expenses were as follows:

(In millions)	1980	1979	1978
Pension	\$58	\$54	\$48
Savings and profit-sharing	23	22	22
Total	\$81	\$76	\$70

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. Current pension costs are funded annually as incurred, and at year end 1979, based upon market valuation of investments, all vested benefits were fully funded.

In addition, the Company has an unfunded, noncontributory, supplemental retirement plan for certain management employees.

The unfunded actuarial liability for all pension and retirement plans at December 31, 1979, the date of the latest actuarial valuation, was \$170 million.

The present value of accumulated benefits for all participants in the Company's principal pension plan and the supplemental plan and the applicable net assets of the plans are as follows:

	December 31 1979
(In millions)	
Present value of accumulated benefits:	
Vested	\$134
Non-vested	<u>69</u>
	<u>\$203</u>
Net assets available for benefits	<u>\$315</u>

In determining the actuarial present value of accumulated benefits, the assumed rate of return used was 8.5 per cent. The rate of return used in determining the funding and pension costs of the retirement plans was 6.0 per cent.

The savings and profit-sharing plan encourages savings by employees through the allocation of 4-1/2 per cent of the Company's available profits, as defined in the plan, to participants who make deposits under the plan. The eligibility requirement is the same as that under the Company's principal pension plan.

Condensed financial statements of the principal retirement plans are as follows.

Balance sheet (In millions)	Savings and profit-sharing			Pension		
	December 31 1980	1979	1978	December 31 1980	1979	1978
Assets						
JCPenney common stock at market value: 10.4 million shares in 1980; 9.0 million shares in 1979; 7.5 million shares in 1978 (cost: \$402 in 1980, \$381 in 1979, and \$349 in 1978)	\$245	\$234	\$228	\$—	\$—	\$—
Funds with insurance companies	119	111	104	—	—	—
Other investments at market value (cost: 1980, \$20 and \$286; 1979, \$14 and \$227; 1978, \$17 and \$184)	20	15	17	338	245	185
Other assets, net	22	21	22	43	35	24
	<u>\$406</u>	<u>\$381</u>	<u>\$371</u>	<u>\$381</u>	<u>\$280</u>	<u>\$209</u>
Liabilities and equity						
Estimated liability for pensions	\$—	\$—	\$—	\$381	\$280	\$209
Participants' equity in savings and profit-sharing plan	406	381	371	—	—	—
	<u>\$406</u>	<u>\$381</u>	<u>\$371</u>	<u>\$381</u>	<u>\$280</u>	<u>\$209</u>

Statement of changes in retirement plans' assets (In millions)	Savings and profit-sharing			Pension		
	1980	December 31 1979	1978	1980	December 31 1979	1978
Total assets at beginning of year	\$381	\$371	\$364	\$280	\$209	\$166
Company contributions	24	23	23	43	41	36
Participants' contributions	47	47	49	—	—	—
Investment income	28	23	18	29	18	9
Unrealized appreciation (depreciation) of investments	(21)	(35)	(37)	34	16	2
Benefits paid	(53)	(48)	(46)	(5)	(4)	(4)
Total assets at end of year	<u>\$406</u>	<u>\$381</u>	<u>\$371</u>	<u>\$381</u>	<u>\$280</u>	<u>\$209</u>

Ten Year Operations Summary

J.C. Penney Company, Inc. and Consolidated Subsidiaries

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
JCPenney full line stores										
Number of stores	552	517	482	456	432	382	351	331	305	267
Net selling space (In million sq. ft.)	47.8	45.1	42.4	40.4	38.4	34.1	31.1	29.0	26.5	22.6
Sales (In millions)	\$7,224	6,785	6,562	5,486	4,695	4,056	3,535	3,079	2,537	1,970
Sales per square foot	\$ 156	157	160	139	129	125	119	112	103	95
JCPenney soft line stores										
Number of stores	1,130	1,166	1,201	1,230	1,249	1,269	1,292	1,305	1,338	1,373
Net selling space (In million sq. ft.)	15.0	15.1	15.3	15.2	15.1	15.2	15.5	15.9	16.9	17.5
Sales (In millions)	\$2,451	2,537	2,516	2,254	2,144	2,146	2,122	2,051	2,076	2,072
Sales per square foot	\$ 164	167	166	151	145	140	134	124	121	118
Catalog										
Number of sales centers	1,840	1,820	1,617	1,496	1,432	1,353	1,298	1,236	1,131	1,079
Number of distribution centers	5	5	5	4	3	3	3	2	2	2
Distribution space (In million sq. ft.)	9.6	9.6	9.6	8.0	6.1	6.1	6.1	4.1	4.1	4.1
Sales (In millions)	\$1,537	1,455	1,210	1,008	846	742	614	509	410	322
Belgian stores										
Number of stores	76	77	78	78	78	79	82	85	88	87
Net selling space (In million sq. ft.)	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.6	1.5	1.2
Sales (In millions)	\$ 911	861	768	625	526	469	397	334	262	208
Sales per square foot	\$ 271	270	249	214	189	177	147	136	130	118
Drug stores										
Number of stores	361	351	335	299	271	259	255	239	216	205
Net selling space (In million sq. ft.)	3.1	3.0	2.8	2.4	2.1	1.9	1.7	1.5	1.3	1.2
Sales (In millions)	\$ 474	409	348	298	258	231	191	155	132	112
Sales per square foot	\$ 155	143	135	142	136	132	121	117	110	111

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores. Total catalog sales shown above include sales by catalog sales centers, outlet stores, and mail.

Sales per square foot include only those sales from stores in operation for the full year.

Ten Year Financial Summary

J C Penney Company, Inc and Consolidated Subsidiaries

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Results for year (In millions)										
Sales	\$ 11,353	10,856	10,436	9,040	8,065	7,375	6,681	6,022	5,347	4,654
Per cent increase from prior year	4.6	4.0	15.4	12.1	9.4	10.4	10.9	12.6	14.9	9.3
Costs and expenses excluding interest and depreciation	\$ 10,553	10,057	9,633	8,276	7,453	6,824	6,242	5,508	4,905	4,282
Interest	\$ 233	254	208	130	111	124	155	112	78	64
Depreciation and amortization	\$ 145	131	114	102	94	87	78	68	58	49
Income before income taxes and other unconsolidated subsidiaries	\$ 422	414	481	532	407	340	206	334	306	259
Per cent of sales	3.7	3.8	4.6	5.9	5.0	4.6	3.1	5.5	5.7	5.6
Income taxes	\$ 184	180	220	253	191	159	98	164	152	133
Income from continuing operations	\$ 268	261	284	296	227	187	117	180	164	133
Per cent increase (decrease) from prior year	2.6	(8.0)	(4.0)	30.7	20.9	59.7	(34.8)	9.7	22.8	18.0
Per cent of sales	2.4	2.4	2.7	3.3	2.8	2.5	1.8	3.0	3.1	2.9
Per cent of stockholders' equity	10.6	11.1	13.4	15.8	13.6	13.6	9.1	15.8	16.5	17.7
Per share										
Income from continuing operations	\$ 3.83	3.78	4.25	4.53	3.55	3.12	1.99	3.09	2.84	2.39
Dividends	\$ 1.84	1.76	1.76	1.48	1.28	1.16	1.16	1.11	1.05	1.01
Stockholders' equity	\$ 37.67	36.16	34.92	32.19	29.11	27.53	23.22	22.00	19.57	17.15
Financial structure (In millions)										
Receivables, net	\$ 2,769	3,007	2,766	2,372	1,961	1,689	1,565	1,406	1,190	935
Merchandise inventories	\$ 1,571	1,687	1,970	1,651	1,231	1,156	1,186	1,106	1,018	856
Property and property rights, net	\$ 1,890	1,744	1,526	1,318	1,160	1,063	985	896	786	718
Capital expenditures and property rights	\$ 295	355	331	284	236	292	250	214	251	292
Total assets	\$ 6,821	6,956	6,729	5,740	4,775	4,404	4,092	3,660	3,254	2,771
Short term debt, net	\$ 88	1,038	1,103	823	451	385	708	757	693	505
Long term debt	\$ 2,185	1,672	1,627	1,282	1,169	1,079	1,040	702	635	537
Stockholders' equity	\$ 2,639	2,520	2,357	2,118	1,873	1,669	1,382	1,293	1,138	990
Stockholders and employees										
Number of stockholders at year end (In thousands)	89	86	86	83	78	77	76	75	74	71
Average number of shares outstanding (In millions)	70	69	67	65	64	60	59	58	58	56
Number of employees at year end (In thousands)	194	200	204	187	177	180	188	196	172	159

Quarterly Data (Unaudited) (In millions except per share data)	First			Second			Third			Fourth		
	1980	1979	1978	1980	1979	1978	1980	1979	1978	1980	1979	1978
Sales	\$ 2,271	2,242	2,094	2,425	2,381	2,331	2,765	2,666	2,608	3,892	3,567	3,403
Per cent increase from prior year	1.3	7.0	18.7	1.9	21	19.9	3.7	2.2	14.1	9.1	4.8	11.7
Cost of goods sold, occupancy, buying, and warehousing costs	\$ 1,591	1,556	1,469	1,740	1,698	1,645	1,954	1,858	1,819	2,732	2,544	2,383
Income from continuing operations	\$ 18	37	34	11	20	42	59	65	72	180	139	136
Per cent increase (decrease) from prior year	(51.6)	5.9	14.8	(45.1)	(52.5)	22.3	(9.9)	(8.9)	(5.2)	29.6	2.7	(12.9)
Income from continuing operations per share	\$.26	.54	.53	.15	.29	.62	.84	.95	1.08	2.58	2.00	2.02
Dividends per share	\$.46	.44	.44	.46	.44	.44	.46	.44	.44	.46	.44	.44
Common stock price range	High	\$ 26	32	42	28	32	43	29	33	41	25	28
	Low	\$ 20	28	33	24	28	36	21	25	32	20	24

Store Space Opened in 1980

City, state, shopping center	Gross square feet of store space (In thousands)	City, state, shopping center	Gross square feet of store space (In thousands)
JCPenney stores			
<i>First Quarter</i>		<i>Fourth Quarter</i>	
*Roanoke Rapids, North Carolina (Becker Village)	53	*Pasadena, California (Plaza Pasadena)	144
*Gainesville, Texas (Gainesville)	14	Pleasanton, California (Stoneridge) . . .	156
*Chanute, Kansas (Chanute)	14	*Prescott, Arizona (Ponderosa) . . .	34
*Lufkin, Texas (Lufkin)	51	*Spencer, Iowa (Southpark) . . .	52
*Odessa, Texas (Permian)	105	*Statesville, North Carolina (Signal Hill)	54
Vancouver, Washington (Vancouver)	156	*Sumter, South Carolina (Sumter) . . .	52
*Pecos, Texas	11	*Tuscaloosa, Alabama (University) . . .	104
*Cleburne, Texas (Nolan River)	34	*Forest Grove, Oregon (Forest Grove) . . .	10
*Buena Park, California (Buena Park)	147	*Tiffin, Ohio (Tiffin) . . .	34
*Gautier, Mississippi (Singing River)	70	*Chillicothe, Illinois	8
*Johnson City, Tennessee (The Mall)	73	*Leesburg, Florida (Lake Square)	81
Warwick, Rhode Island (Warwick) . . .	145	*Superior, Wisconsin (Mariner)	22
*Wichita Falls, Texas (Sikes Center)	145	Wichita, Kansas (Towne West)	159
*Champaign, Illinois (Market Place)	157	*Bluefield, West Virginia (Mercer)	102
Lynnwood, Washington (Alderwood)	160	*Early, Texas (Heartland)	34
*Ardmore, Oklahoma (Mountain View)	34	Oklahoma City, Oklahoma (Quail Springs)	156
*Minot, North Dakota (Dakota Square)	106		
*District Heights, Maryland (Forest Village Park)	161		
*Waco, Texas (Richland)	106		
Auburn, New York (Pyramid)	51		
St. Augustine, Florida (Ponce de Leon)	51		
*Flagstaff, Arizona (Flagstaff)	73		
*Marshall, Texas (Marshall)	34		
*Houghton, Michigan (Copper Country)	35		
<i>Second Quarter</i>			
Statesboro, Georgia (Statesboro)	39		
*Bozeman, Montana (Main)	34		
Newark, Delaware (Christiana)	160		
*Borger, Texas (Borger)	34		
*Portage, Michigan (Crossroads)	156		
<i>Third Quarter</i>			
*Beaver Dam, Wisconsin (Beaver)	35		
*Clarion, Pennsylvania (Clarion)	34		
*Greenville, South Carolina (Haywood)	156		
Troy, Michigan (Oakland)	210		
*Madisonville, Kentucky (Parkway)	51		
Fairfax, Virginia (Fair Oaks)	157		
*La Crosse, Wisconsin (Valley View)	103		
*Grand Island, Nebraska (Conestoga)	57		
*Hemet, California (Hemet Valley)	34		
Drug stores and other (22 stores opened)			
Gross store space opened			
*Relocation of existing store			

Corporate Responsibility

The Company continued to make progress in 1980 in its efforts to address social and environmental concerns. This year's presentation includes a five year summary of performance in major areas.

Community Involvement. JCPenney supports employee involvement in community affairs by providing volunteer opportunities through Company sponsored projects such as adult literacy and student tutoring programs. The Company also provides opportunities for employees to participate in full-time, on-loan assignments to nonprofit organizations. Last year, 15 employees were loaned to work with local United Way campaigns.

Individual associates who have made significant contributions to their communities through their volunteer efforts are recognized annually through the Community Service Award Program. From more than 400 nominees, 90 winners received awards, and cash contributions were made to the organizations for which they volunteered.

Contributions. JCPenney makes contributions of money, gifts-in-kind, and loaned professional services to a variety of social agencies which work to improve the quality of life in communities where we do business. Approximately 75 per cent of these contributions are made by stores and other field facilities to organizations providing direct service to local citizens. The greatest portion of Company contributions goes to health and social service agencies, followed by higher education, civic betterment, and cultural activities. In addition, the Company participates in hundreds of United Way campaigns as an effective method of responding to community needs.

In 1980, charitable contributions were \$4.7 million, or 1.1 per cent of pre-tax income, compared with \$4.8 million, or 1.2 per cent, in 1979.

Minority Economic Development. Purchases of goods and services from minority owned businesses rose to \$69 million in 1980 from \$66 million in 1979. This represented business relationships with more than 850 minority suppliers compared with 600 in 1979. Additionally, we spent \$1 million on advertising in 120 minority print and broadcast media, as against \$.7 million in 92 media in 1979.

Our efforts to encourage the use of minority owned businesses included the production of a slide/tape training program on minority economic development for use throughout the Company.

Working bank accounts were maintained with 13 minority owned banks, the same as in 1979. Average balances with these banks were approximately \$5 million, as compared with \$.4 million in 1979. At year end, lines of credit with 12 of these banks amounted to \$2.4 million versus credit lines with 11 banks totaling \$2.2 million in 1979.

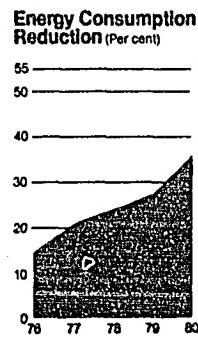
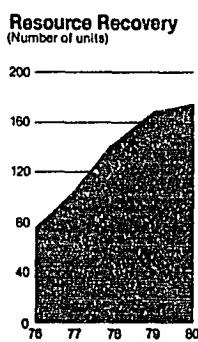
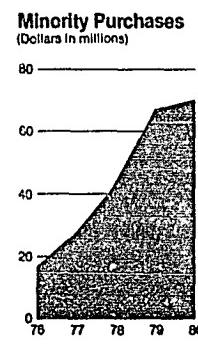
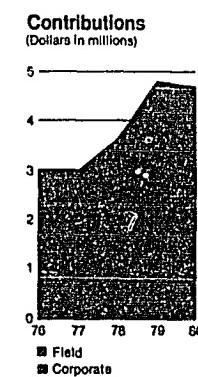
Resource Recovery. In 1980, some 175 stores, catalog distribution centers, and other facilities participated in the Company's Resource Recovery Program, as compared with 170 in 1979. Through this program, more than 17 thousand tons of waste paper were recycled, up from 16 thousand tons in 1979, representing a savings economically as well as environmentally.

Energy Conservation. The Company has continued to make progress toward the overall objective of a 55 per cent reduction in energy consumption from the base year of 1973. A joint JCPenney/General Electric development effort has created a major breakthrough in store lighting that will save close to \$2 million a year in energy costs when installed in new stores and many existing full line stores. The energy conservation program was further strengthened in 1980 with the addition of Marketing Maintenance Representatives whose responsibilities include providing continued leadership in energy conservation and related technical maintenance in major markets.

Job Performance Action Program. The Job Performance Action Program, which began in 1977, addresses situations involving previously satisfactory employees whose job performance may be cause for termination. Sometimes such deterioration represents underlying organic, psychological, drug, or alcoholism problems. This program reflects the Company's concern with the high costs associated with such problems on both a corporate and a human basis.

The program offers employees the opportunity of referral to a professional diagnostic facility for confidential identification of their problem and participation in a treatment program. Last year about 70 per cent of program participants demonstrated improved job performance.

Employment. Year end employment totaled approximately 201,000, of whom 191,298 were employed in the United States, including Treasury and excluding unconsolidated subsidiaries. Summaries based upon the Company's consolidated Employer Information Reports EEO-1 to the United States Equal Employment Opportunity Commission for the years 1980 and 1976 appear below:



Category	Total employed		Per cent female		Per cent minority	
	1980	1976	1980	1976	1980	1976
Officials, managers, and professionals	23,649	22,450	39.2	37.4	8.2	6.4
Management trainees	1,029	1,919	44.4	36.7	18.1	17.5
Salesworkers	92,855	77,062	82.8	80.9	11.4	9.2
Office and clerical workers	40,053	41,867	89.8	88.9	15.3	12.0
Technicians, craft workers, and operatives	14,838	13,215	61.5	53.1	15.3	14.0
Laborers and service workers	18,874	17,888	40.4	39.6	18.4	18.5
Total	191,298	174,401	72.8	70.4	12.8	10.9

Impact of Inflation on Financial Data

The preceding financial statements and financial review were prepared on the basis of historical costs. Substantial economic changes caused by the recent spiraling inflation may not be adequately measured by historical cost information. The Financial Accounting Standards Board (FASB) has prescribed two methods of disclosure, constant dollar and current cost, to address the effects of inflation on specific elements of financial statements on an experimental basis. In order to insure an element of consistent reporting by all companies during the experimental period, the FASB requires the use of the Consumer Price Index for All Urban Consumers (CPI-U) in computing the effects of inflation. The Company believes general merchandise price increases are more appropriately measured by the index prepared by the Bureau of Labor Statistics (BLS) of the Department of Labor, and this measure of inflation is used in the alternative presentations. The purchasing power gain also is included as a reduction of interest expense in the alternative presentation since the Company believes this reflects the effect of inflation on net monetary liabilities.

Under the FASB methods, the Company's reported historical cost financial data for 1980 are adjusted as follows:

	Constant dollar	Current cost
Plant and equipment	Historical costs are increased using the CPI-U. Accumulated depreciation and amortization is based on the weighted average age of the assets.	Historical costs are increased to current costs for assets with the same service potential. Accumulated depreciation and amortization is based on the weighted average age of the assets.
Inventory	Converted to average 1980 dollars.	FIFO method of inventory valuation
All other assets and liabilities (monetary items)	Converted to average 1980 dollars.	Converted to average 1980 dollars
Cost of goods sold	FIFO basis with beginning inventories adjusted for a full year of inflation using CPI-U.	No adjustment.
Depreciation and amortization	Based on adjusted plant and equipment.	Based on adjusted plant and equipment.
Income tax expense	No adjustment.	No adjustment.
Sales and other costs and expenses	No adjustment.	No adjustment.

1980 Statement of income Adjusted for changing prices

(In millions except per share data)

	As reported	Experimental methods	
		Constant dollar	Current cost
Sales	<u>\$11,353</u>	<u>\$11,353</u>	<u>\$11,353</u>
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	7,977	8,122	7,977
Selling, general, and administrative expenses	2,576	2,576	2,576
Interest	233	233	233
Depreciation and amortization	145	210	174
Total costs and expenses	<u>10,931</u>	<u>11,141</u>	<u>10,960</u>
Income before income taxes and other unconsolidated subsidiaries	422	212	393
Income taxes	184	184	184
Income before other unconsolidated subsidiaries	238	28	209
Income of other unconsolidated subsidiaries	30	30	30
Income from continuing operations, required methods	268	58	239
Alternative methods:			
Lower cost of goods sold resulting from using BLS to adjust beginning inventories	—	134	—
Lower interest expense resulting from purchasing power gain	—	75	75
Income from continuing operations, alternative methods	<u>\$ 268</u>	<u>\$ 267</u>	<u>\$ 314</u>
Income from continuing operations per share:			
Required methods	<u>\$ 3.83</u>	<u>\$.83</u>	<u>\$ 3.40</u>
Alternative methods	<u>\$ 3.83</u>	<u>\$ 3.80</u>	<u>\$ 4.47</u>

Five year summary of selected financial data

Adjusted for changing prices

	1980	1979	1978	1977	1976
Sales (In millions)					
CPI-U index	\$11,353	12,300	13,202	12,340	11,735
BLS index	\$11,353	11,540	11,730	10,658	9,863
Constant dollar information					
Income from continuing operations	\$ 58	124			
Income from continuing operations per share	\$.83	1.79			
Purchasing power gain	\$ 75	103			
Net assets	\$ 3,881	3,911			
Current cost information					
Income from continuing operations	\$ 239	264			
Income from continuing operations per share	\$ 3.40	3.81			
Difference between increase in assets using CPI-U and current costs	\$ 312	487			
Net assets	\$ 3,291	3,385			
Dividends per share in constant 1980 dollars	\$ 1.84	1.99	2.23	2.02	1.86
Common stock price at year end in constant 1980 dollars	\$ 21	26	38	45	63
Average CPI-U index	249.1	219.8	196.9	182.5	171.2
Per cent increase in CPI-U index	13.3	11.6	7.9	6.6	5.6
Per cent increase in BLS index	6.3	5.8	4.9	3.7	4.3

The FASB's required table presenting the changes in current cost for 1980 is as follows:

(In millions)

Increase in inventories and plant and equipment using the CPI-U	\$455
Increase in inventories and plant and equipment measured in current cost	143
Difference	\$312

The indicated difference above results from competitive conditions, productivity improvements, and other efficiencies in the distribution sector. This has resulted in increases in general merchandise prices charged to customers which are less than increases in prices caused solely by general inflation as measured by the CPI-U. Also, this environment has required improvements in service potential by developing smaller and more efficient retail facilities. The increase in the Company's plant and equipment measured in current costs was less than the increase measured by the CPI-U.

This is the first year the FASB has required companies to disclose the effects of inflation on financial data on the basis of two experimental methods. No consensus has been reached as to the usefulness of the data resulting from either of these experiments or from the alternative methods presented. The Company believes further experimentation must be undertaken to determine the most appropriate means by which preparers and users of financial information can measure the effects of economic changes. Considerably more education and experience will be needed before this measurement can be accomplished in a meaningful and generally understood manner.

J. C. Penney Company, Inc.

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Butler University
Chairman Emeritus,
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Formerly Senior Vice President,
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Formerly United States
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Eastern Region

Charles K. Ogg
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Charles R. Steinforth
Central Region

John A. Wells
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Satentig S. St. Marie
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Nico de Graaff

Cornelius T. Dorans

John V. Faltermeir

Archibald E. King, Jr.

Richard M. Kleid

Richard P. Rubenoff

J. David Silvers

Assistant Treasurers

William B. Baxter

John B. Hebard

Jean P. Shanaphy

Transfer Agents

J C Penney Company, Inc
Securityholder Services
4301 Lancaster Pike
PO Box 3940
Wilmington, Delaware 19807

Registrar and Transfer Company
55 Water Street
New York, New York 10041

Registrars

Registrar and Transfer Company
55 Water Street
New York, New York 10041

Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange
Brussels and Antwerp Stock Exchanges

Supplemental Information

Copies of the Company's Form 10-K
annual report for 1980 to the Securities
and Exchange Commission and consolidated
Employer Information Reports
EEO-1 for 1980 year end to the United
States Equal Employment Opportunity
Commission will be made available upon
request to

Ms. Sylvia A. Dresner
J C Penney Company, Inc
Public Information
1301 Avenue of the Americas
New York, New York 10019
Phone (212) 957-8170

Copies of J C Penney Financial Corporation's annual report are available from

Mr. Philip G. Rickards
J C Penney Financial Corporation
PO Box 3999
Wilmington, Delaware 19807
Phone (302) 652-3801

Inquiries about your stockholder record
should be forwarded to

Mr. Alfred C. Riley
J C Penney Company, Inc
Securityholder Services
PO Box 3940
Wilmington, Delaware 19807
Phone (302) 995-2284

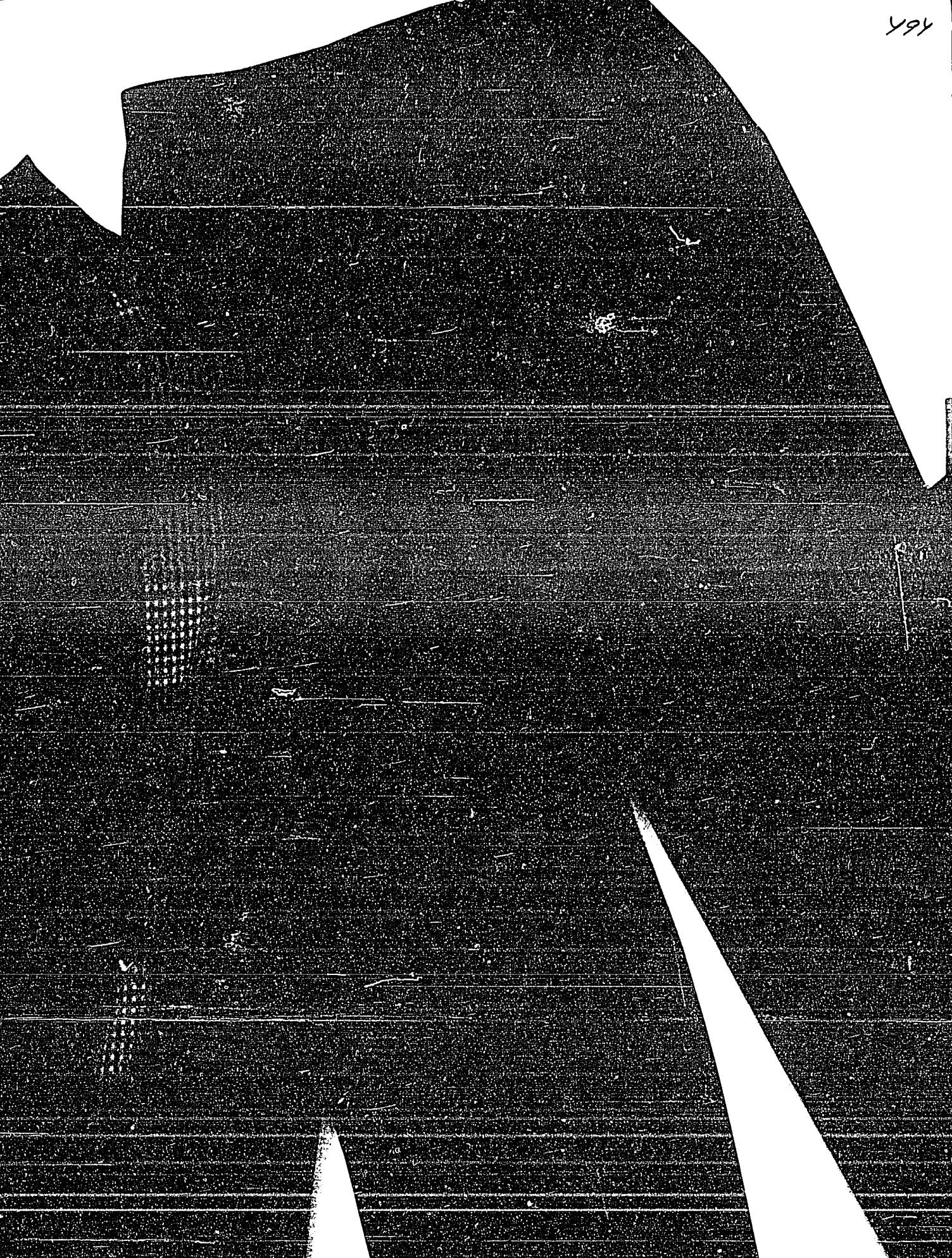
¹ Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's accounts, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report with Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters. The Audit Committee is composed entirely of outside directors.

² Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest. The committee is composed entirely of outside directors.

³ Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors. Only outside directors serve on this committee.

⁴ Member of the Personnel and Compensation Committee. This committee reviews the Company's profit incentive and equity compensation plans, makes recommendations in areas concerning personnel relations, and takes action with respect to the compensation of Company officers who are directors. It is also the committee which acts under certain of the Company's stock and incentive compensation plans. This committee consists entirely of outside directors.

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